

FISCAL NOTE

HB 2512 - SB 2568

January 24, 2008

SUMMARY OF BILL: Requires the Tennessee Education Lottery Corporation (TELC) to only operate lottery games in which winners are selected or determined through a random drawing using numbered balls, excluding instant ticket lottery games and multi-state games (Powerball).

ESTIMATED FISCAL IMPACT:

Other Fiscal Impact – The net decrease of lottery proceeds earmarked for scholarships and grants is estimated to be \$4,010,000 in FY08-09 and thereafter. Such estimated decrease results from (1) an increase of operating expenses for the TELC (estimated to be no more than \$2,000,000) and (2) a decrease of net lottery proceeds resulting from games that would become non-compliant with passage of this bill (estimated to be \$2,010,000). In addition, funding earmarked for after-school programs, which is generated from unclaimed prize money, is estimated to decrease by \$113,000 in FY08-09 and thereafter.

Assumptions:

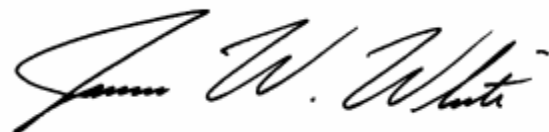
- Currently, the TELC offers seven types of lottery games: instant games, Powerball, Cash 3, Cash 4, Lotto 5, HotTrax Champions, and Million Dollar Madness.
- The provisions of this bill do not apply to instant ticket lottery games or to multi-state games such as Powerball.
- Currently, the TELC operates five games where winners are determined by computerized programs: Cash 3, Cash 4, Lotto 5, HotTrax Champions, and Million Dollar Madness.
- According to information presented by the TELC to the Lottery Oversight Committee on December 10, 2007, the corporation would have incurred \$4,811,115 in additional annual operating expenses to renew existing contracts with six television stations (WKRN, WREG, WBIR, WTVC, WKPT, and WBBJ) to televise live numbered ball drawings for three games (Cash 3, Cash 4, and Lotto 5).
- According to the TELC, it plans to launch a new game in March 2008 (Lotto Plus) that would have required numbered ball drawings if the

computerized method was not in place, and it estimates additional costs would have been approximately \$150,000 per year if winners for this game were to be determined by a random numbered ball system and televised as the other three games had been.

- Given the TELC's decision to negotiate exclusively with television stations the corporation already had current contracts with, and the decision to not solicit other competitive bids from other television stations, there would seem to be a reasonable probability the corporation could have secured more favorable terms with other stations if it had solicited other competitive bids. To that end, we estimate that TELC expenditures would have increased no more than \$2,000,000 if a competitive bid process had been undertaken.
- Under this bill, the TELC would no longer be able to operate HotTrax Champions or any raffle-style game (Million Dollar Madness) because winners are determined by random number generator software.
- Annual gross sales for HotTrax Champions and Million Dollar Madness are estimated to be \$2,500,000 and \$8,000,000 respectively.
- 50% of sales for HotTrax Champions and Million Dollar Madness shift to sales of other lottery games.
- According to the TELC, annual profit margins for HotTrax Champions and Million Dollar Madness are approximately 32.8% and 40.0% respectively.
- Net lottery proceeds generated from HotTrax Champions and Million Dollar Madness are estimated to be \$410,000 and \$1,600,000 respectively.
- Currently, unclaimed prize money is earmarked for after-school programs.
- Approximately 2.0% of all prize money goes unclaimed each year.
- According to the TELC and based on expected sales, prize winnings for HotTrax Champions and Million Dollar Madness are estimated to be \$5,650,000 per year.
- Unclaimed prize money is estimated to decrease by approximately \$113,000 ($\$5,650,000 \times 2.0\% = \$113,000$) per year.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

/rnc